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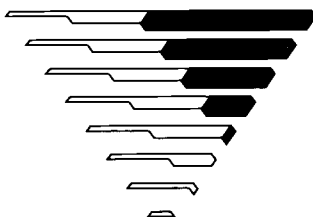
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ABSTRACT

This paper examines the implications of the Report of the Independent Committee of Inquiry into a national competition policy (the Hilmer Report) for the vocational education and training system in Australia. It identifies issues of importance for training markets and points of strategic intervention to facilitate the development of more open and competitive markets, consistent with the principles of the proposed policy. Part 1 reviews the Report of the Hilmer Inquiry and its main findings and recommendations. It examines the competitive conduct rules contained in the Commonwealth "Trade Practices Act" (1974) and additional policy elements associated with building a more competitive economy. Government responses to the Hilmer Report are summarized. Part 2 considers the concept of a training market in the context of the approaches adopted by the Hilmer Committee. Part 3 provides an assessment of the relevance of the Hilmer proposals for the development of more open and competitive training markets considered in two parts: those which relate to part IV of the Trade Practices Act, which spell out the competitive conduct rules, and those which relate to the additional policy elements outlined in part 1--structural reform of public monopolies, regulatory restrictions on competition, access to essential facilities, monopoly pricing, and competitive neutrality. Part 4 summarizes the opportunities for strategic intervention by policy. (YLB)

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THE NATIONAL COMPETITION POLICY REVIEW (THE HILMER REPORT) AND ITS IMPLICATIONS FOR THE VOCATIONAL EDUCATION AND TRAINING SYSTEM



**AUSTRALIAN
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**Prepared for the Australian National Training Authority
by Joy Selby Smith Pty Ltd, Melbourne**

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FOREWORD

In recent years, much emphasis has been placed on the need for the Australian economy to become more internationally competitive. The need to be able to respond quickly to new and changing demand, both at the international and domestic level, is a vital element of being a more competitive nation. To this end, it is important to ensure that the Australian workforce, including those already in paid employment, new entrants and the unemployed, is highly skilled and flexible enough to meet the challenges posed by the move to a more competitive economy. Governments and, to a large extent, business have taken this as a premise for reform in the vocational education and training (VET) system.

The main thrust of the reforms to the VET sector in recent years has been to create a flexible system of delivery which encompasses the needs of industry, as its key client group, and the development of mechanisms which support this. One of the key strategies in achieving the goals of quality, efficiency, effectiveness and diversity, as well as improved responsiveness and relevance in the VET sector, lies in the opening up of the training market to more competition. A way to achieving this is to have a broader range of providers who both cooperate and compete to meet the increased demand for VET.

Competition in the VET sector is not simply a question of directing resource allocation but improving the quality of interface between enterprises seeking skills formation processes, individuals who need training and the public provision of such services. Even though there are some concerns, mainly from publicly funded providers and practitioners, that a move to a more open training market will result in what is referred to as 'private governance of public money', it is important to recognise the increasingly entrepreneurial approach of TAFE toward capturing fee-for-service and joint venture activity with enterprises. In this context, the appropriateness of maintaining a TAFE monopoly over publicly funded activity is questionable when publicly funded providers can and do access the private training market.

Further, building, or not tearing down, barriers to a more open training market runs the risk of not only impeding efficient delivery of training but also depriving all training providers and clients the opportunity to reap the benefits of open competition (like better access to improved infrastructure and to courses more suited to client needs).

We are already witnessing a growing proportion of training activity being delivered through competitive processes. All States and Territories are developing policies and dedicating funds to the purchase of student places through open tender, strategic partnerships with non-TAFE providers and preferred supplier arrangements. ANTA

estimates that \$21m will be set aside for this purpose in 1995, an increase of approximately 65 per cent over 1994 funding levels.

An approach will be piloted in 1995 whereby enterprises (or group training companies on behalf of enterprises) will be able to choose, in consultation with employees, who provides publicly funded off-the-job training for apprentices and trainees. This will satisfy client needs more fully by allowing enterprises to choose between competing providers of entry level training, based on their capacity to satisfy individual and enterprise needs. An enterprise might choose to provide its own publicly funded training. This approach would increase the percentage of public funds distributed on a more competitive basis.

ANTA is also supporting the pursuit for a more open training market through its National Projects. The Authority has commissioned work from the Allen Consulting Group, which is producing a report entitled *Establishing an Effective Australian Training Market*, and the Western Australian Department of Training, which is undertaking work on *Developing the Training Market*.

This paper, prepared by Dr Joy Selby Smith, provides a useful insight into how competition policy may effect the VET sector. In particular, it examines the Hilmer Report on a national competition policy (released in 1993) and seeks to identify issues of importance for training markets and sets out points of strategic intervention that might be pursued to facilitate the development of more open and competitive markets, consistent with the principles of the proposed national competition policy.

Vocational education and training is expanding. The institutions which underpin the sector must also change to accommodate a more diverse client group and greater demand. In such an environment, the drive for a more diverse and open training market will continue to be a necessary strategy to meet increased demand.

This paper has been prepared as background for the information of all in the VET sector.



Terry Moran

Chief Executive Officer

Australian National Training Authority

January 1995

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INTRODUCTION

For some time now in Australia, increased attention has been paid to the necessity to upgrade workforce skills: of those already in paid employment, new entrants and the unemployed. Chiefly, this attention has been expressed in the context of the need for the Australian economy to become internationally competitive, in a trading environment where competition between trading blocs and nations has been intensifying and where traditional markets have become less secure in uncertain macro-economic conditions. International competition is being driven increasingly by technological advance and the ability to innovate; that is, the capacity to respond quickly to market demand for new and improved, usually technology-based, products (goods and services) and processes. These changing international market conditions have placed increased pressure on enterprises to respond quickly and flexibly. They have also placed increased value on the knowledge and skills critical to successful innovation at the enterprise level. Learning is a central activity in the innovation process and widespread reference is now being made to the 'knowledge intensive' economy and the 'learning' enterprise, to emphasise the idea that knowledge in its broadest sense has become the strategic resource of the modern economy and enterprises within it.¹

At the national level, in all OECD countries, the increased pressure to compete is leading to the closer integration of education and training policies with industry, science and technology, trade and foreign policies to enhance efficiency and innovation. The focus is now on the competitiveness of nations not simply on the competitiveness of firms. Australia has embraced these developments as it has sought to become more integrated into the international economy. In this context, it is appropriate that Australian governments should seek to review the nation's competition policy as an important instrument of economic policy. It is also timely that those charged with managing the vocational education and training system, an important element of the nation's competitiveness infrastructure, should wish to review the implications for it of proposed changes in competition policy, so that consistency between these two policy areas might be achieved. This is the case particularly when substantial reforms are

¹ See *Technology and the Economy: The Key Relationships*, OECD, Paris, 1992; and *National Systems of Innovation: Towards a Theory of Innovation and Learning*, B.A. Lundvall (ed.), Pinter Publishers, London, 1992.

already being instituted in the vocational education and training system directed towards achieving more open and competitive training markets,

This paper examines the implications of the Report of the Independent Committee of Inquiry into a national competition policy (the Hilmer Report)² for the vocational education and training system. In particular, the paper seeks to identify issues of importance for training markets and sets out points of strategic intervention that might be pursued to facilitate the development of more open and competitive markets, consistent with the principles of the proposed national competition policy. These principles have now been endorsed by State, Territory and Commonwealth Governments.

The paper is divided into four parts:

- Part 1 reviews the Report of the Hilmer Inquiry and presents its main findings and recommendations. The Report examines both the competitive conduct rules contained in part IV of the Commonwealth *Trade Practices Act* (1974) and additional policy elements not addressed in the *Act* but which, the Report argues, are associated with building a more competitive economy. Governments' responses to the Hilmer Report are also summarised.
- Part 2 considers the concept of a 'training market' in the context of the approaches adopted by the Hilmer Committee.
- Part 3 provides an assessment of the relevance of the Hilmer proposals for the development of more open and competitive training markets.
- Part 4 summarises the opportunities for strategic intervention by policy.

²

National Competition Policy, Report by the Independent Committee of Inquiry, (Frederick G. Hilmer, Chairman), Australian Government Publishing Service, Canberra, 1993.

1. THE NATIONAL COMPETITION POLICY REVIEW

The National Competition Policy Review was initiated by the Prime Minister in October 1992 following agreement by Governments on the need for such a policy. The Committee of Inquiry was chaired by Professor Fred Hilmer. The Committee reported in 1993.

The Committee saw its task as 'proposing the most effective form, content and implementation approach for a national competition policy that will support an open integrated domestic market for goods and services' (Report, p.xix). As the Report noted, Australia is for all practical purposes a 'single integrated market' (p.xvii). The Committee took a broad perspective, identifying common themes and issues rather than developing detailed prescriptions for individual sectors. However, it expressed the view that its proposals were flexible enough to have wide application. Nearly 150 submissions were received; one related to 'education'. The Commonwealth Department of Employment, Education and Training (DEET) provided a brief written submission in response to a request to comment on two issues: whether professions, and tertiary education institutions, should be brought under the ambit of the *Trade Practices Act* (1974).

1.1 What is Competition Policy?

The Committee argued that 'in its broadest sense competition policy encompasses all policy dealing with the extent and nature of competition in the economy' (p.6). Competition policy is not about the pursuit of competition *per se*. 'Rather, it seeks to facilitate effective competition in the interests of economic efficiency while accommodating situations where competition does not achieve economic efficiency or conflicts with other social objectives' (p.6). That is, it was argued that competition policy accommodates cases of 'market failure', and it was recognised that efficiency objectives may be inconsistent with some other social objectives e.g. benefits for certain groups in the community granted for equity or other reasons. The test is 'public benefit' which it was argued, the pursuit of efficiency usually but not always achieves.

It is noted that the Committee defined an efficient market not by the standards of perfect competition but by those of a highly contestable market.³

Generally, competition policy focuses on the promotion of effective competition and competitive processes rather than on outcomes. In many countries, rules of conduct prohibiting anti-competitive behaviour by firms have served as a basis for competition policy. In Australia, these rules are embodied in part IV of the Commonwealth *Trade Practices Act* (1974) (hereafter, the *Act*). These rules limit the anti-competitive conduct of firms (generally, but not always incorporated businesses): they prohibit certain anti-competitive agreements; misuse of market power; exclusive dealing; resale price maintenance; anti-competitive price discrimination; and certain mergers and acquisitions. However, the Committee found there were significant gaps in coverage allowing certain businesses to operate outside the terms of the *Act*, including State and Territory Government businesses operating under the shield of the Crown,⁴ and unincorporated businesses. Further, the Committee found that the rules of conduct embodied in the *Act* did not cover the full range of issues bearing on building a more competitive economy. In particular, government regulations and government ownership could impede the achievement of competitive efficiency.

1.2 Main Findings of the Hilmer Report

The Committee's main findings and recommendations in summary were that:

- the provisions of the *Act* are by and large operating satisfactorily but a slightly modified version of the conduct rules currently contained in part IV of the *Act* should apply to all business activity in Australia. Exemptions should only be permitted where a clear public benefit is demonstrated through an appropriate and transparent process (certain exemptions were proposed in the report)

³ A market is perfectly contestable if entry and exit is costless and unimpeded. It is argued that under these conditions even large firms will produce efficiently and not overcharge because of the threat of competition from *potential* entrants who otherwise would be attracted into the market by the opportunity to make a profit.

⁴ The Shield of Crown doctrine has the effect of making statutes inapplicable to the Crown and its instrumentalities 'except by express words or necessary implication' (p116).

- in addition to the *Act*, the components of a national competition policy should include five additional elements: principles and processes governing the reform of regulatory restrictions on competition; the structural reform of public monopolies; competitive neutrality between government and private business; a general access regime (to certain facilities that are essential for competition); and a more focussed prices oversight mechanism (p.xxi)
- two new institutions should be established: a National Competition Council, formed jointly by Australian Governments to assist in progressing cooperative reforms relating to the additional policy elements; and an Australian Competition Commission, formed from the existing Trade Practices Commission and Prices Surveillance Authority, which would administer the competitive conduct rules and other aspects of the new policy. The existing Trade Practices Tribunal would be renamed the Australian Competition Tribunal (p.xxxvii).

1.3 Additional Policy Elements

The terms of reference for the Hilmer Inquiry indicated that the Committee should give attention to those impediments to the achievement of an open and competitive economy which currently lie outside the scope of the *Act*. Those impediments were understood widely to include many government businesses (including public monopolies), statutory marketing arrangements for certain agricultural products and some professions. In fact, the Report focussed particularly on those impediments arising from government regulation and government ownership. The Committee was aware that its recommendations here could impinge on the prerogatives of state and territory governments and impact on the profits of government-owned monopolies including electricity, gas and water utilities. The recommendations could also affect the delivery of certain non-commercial functions including community service obligations. The Committee was aware that certain cooperative reforms were already being negotiated between governments. Nevertheless, it considered that a 'bolder stance' was necessary: there was considerable scope yet to move towards more competitive and open regimes in these areas.

In drawing up its recommendations the Committee's focus was, where possible, to adopt cooperative approaches and to propose principles and processes which could be

implemented by individual governments rather than to propose national laws. However, the purpose was clear: it was to implement a **national** competition policy. As mentioned above, the principles and processes and sometimes proposals for legislation related to areas outside the scope of the *Act*. Those areas were:

- the reform of regulation which unjustifiably restricts competition;
- the reform of the structure of public monopolies to facilitate competition;
- providing third party access to certain facilities that are essential for competition;
- restraining monopoly pricing behaviour; and
- fostering 'competitive neutrality' between government and private businesses when they compete (p.xvii).

The main findings and recommendations of the Committee in relation to the additional policy elements are summarised in the accompanying table.

1.4 Governments' Response to the Hilmer Report

The Council of Australian Governments (COAG) agreed to the principles articulated in the Hilmer Report at its Hobart meeting, in February 1994. Among a number of related agreements, COAG sought from State, Territory and Commonwealth Governments reports on the practicalities of applying the Hilmer proposals. It was decided that any legislation or recommendation arising from the proposals would apply to 'all bodies including Commonwealth and State agencies and authorities'.⁵ Officials would also commence working on new legislation to give effect to the Hilmer proposals. The Commonwealth was anxious to bring the legislation into effect in July 1995 (although there was to be a phasing-in period in cases where changes in States' regulatory arrangements and business practices were necessary). COAG was to discuss these matters when it met again in Darwin in August 1994.

In the course of negotiations it was decided not to proceed with some of the amendments to the *Trade Practices Act* (1974) proposed by Hilmer; e.g. the proposal to

⁵

Communique, Council of Australian Governments, Hobart, 25 February, 1994.

extend the *Act* to cover intra-governmental business where that business might be provided by the private sector. Concerns were also expressed in relation to matters such as third party access to essential facilities, proposals for a **national** prices oversight mechanism, and the scope for Commonwealth intervention in the privatisation of state-owned public monopolies. These and related matters were the subject of negotiation in the lead-up to the Darwin meeting. Commentators anticipated that the negotiated recommendations would be endorsed, although prior to the meeting it appeared that there was greater support for the package from New South Wales and Victoria than from other States.⁶

In the event, agreement generally was reached at Darwin on a package of reforms including:

- the extension of the *Trade Practices Act* (1974) to cover State, Territory and local government business enterprises and unincorporated businesses;
- the application by States and Territories of agreed principles on the structural reform of monopolies, competitive neutrality between the public and private sector where they compete; and a review of all regulations restricting competition;
- the establishment in each State and Territory of a prices surveillance mechanism for public utilities and other corporations having high levels of monopoly power;
- rules to provide access to essential infrastructure facilities; and
- the establishment of an Australian Competition Commission and an Australian Competition Council.

COAG also agreed to release for public comment all draft legislation relating to the proposed changes and the draft Intergovernmental agreements which were to include procedures and principles for those elements not requiring a statutory basis.⁷

It should be noted, however, that not all States and Territories agreed to all elements of the reform package. Further, no agreement was reached on the critical issue of how the

⁶ A view expressed at the Institute of Public Administration Australia forum on the implications of the Hilmer Report for South Australia, Adelaide, 19 June, 1994.

⁷ *Communique*, Council of Australian Governments' Meeting, Darwin, 19 August 1994.

tax benefits from the Hilmer and related reforms would be shared between the Commonwealth, and States and Territories. More general concerns about the perceived vertical fiscal imbalance between the States and Territories, and the Commonwealth, which have been a dominant feature of federal-state financial relations over a lengthy period, precluded reaching a final agreement. Instead, it was decided that the Industry Commission would make an assessment of benefits to economic growth and revenue from the Hilmer and related reforms 'to assist the Council in determining at its February 1995 meeting the increase in the Commonwealth revenue which might be expected from these reforms and the appropriate percentage share which would accrue to the States, Territories and Local Government'.⁸

2. TOWARDS MORE OPEN TRAINING MARKETS

2.1 What is a training market?

The idea of a 'training market' has been in the forefront of discussions about vocational education and training reform; however, the content and meaning of the term generally has received less attention.⁹ Some of the thinking in the Hilmer Report assists our better understanding of the concept.

In simple terms, a market is a place or device where buyers and sellers meet to negotiate exchanges. The Hilmer Report offers a more sophisticated definition: 'a market is an area of closer competition or rivalry in which one product or source of supply may be substituted in response to changing prices' (p.28). Hilmer's definition may appear to focus on supply aspects, but of course, the reference to the responsiveness of supply to changing prices incorporates 'demand'. A market is not efficient if it is not highly responsive to changing demand conditions; and a market driven by supply considerations generally is not a responsive market.

Hilmer also notes that 'markets have product, geographical, temporal or functional dimensions' (p.28). This aspect raises the important issue of where the boundaries of a particular market should be drawn and what are its relevant dimensions. Hilmer points out that to define a market too narrowly may be to limit competition and thus incorporate inefficiencies. The *Trade Practices Act* defines 'market' to be a market in Australia, but as Hilmer points out, in assessing the strength of competition, import competition, potential as well as actual, should be taken into account.

A number of considerations flow from Hilmer's discussion.

2.2 Are Training Markets New?

In Hilmer's terms, training markets are not new. There have been markets for education and training services in Australia since colonial times, even if little has been

⁹ At the time of writing this paper it is known that the Office of Training and Further Education of Victoria has commissioned the Allen Consulting Group to undertake an analysis of the nature, structure and role of the training market as an ANTA funded National Project.

known about them **or** little attention given them. Indeed, many commentators on education issues would have recoiled from discussing education and training issues in such terms. The key feature of these markets is that governments have intervened as **funders** for reasons having to do with the role of governments in advanced democratic societies and perceptions about the particular product characteristics of education and training services (externalities, etc.) **and** have become the dominant recognised **providers**. Moreover those on the demand side of the market, enterprises, unions and individuals, have felt that their training needs have not been met adequately by the existing arrangements. The market, having significant monopoly elements (the large, publicly funded and centrally managed TAFE institutions) has not been perceived as being responsive to changing demand conditions in relation to levels, types and quality of training provision.

What is new about training markets is that those who have influence on or responsibility for vocational education and training policy have shifted their focus from government's role as service funders and providers of TAFE (paying attention, for example, to participation, access and equity issues) to give greater consideration to how vocational education and training, more widely, might be provided more efficiently (even whilst governments remain major purchasers of vocational education and training services). This shift in focus includes giving greater attention to the demand side of the market; in particular, paying regard to industry and union concerns about its operations.

Budgets are constrained and funding agencies want to achieve cost savings. Furthermore as noted above, the education and training system is being seen increasingly as an important component of the nation's competitiveness infrastructure. To the extent that it is enterprises which capture for the nation the economic benefits of measures to improve competitiveness (through the successful marketing of new and improved products and services), the training needs of industry and of individuals who will be employed ultimately in industry have come to demand greater consideration. Both aspects highlight efficiency considerations, and to focus on efficiency means generally to focus on the operations of markets.

2.3 What is Meant by 'Improving' and 'Developing' the Training Market?

Much of the discussion about the training market is couched in terms of the need for its 'improvement' or 'development'. These terms are imprecise and have little policy content as such. The Hilmer Report provides a standard in this regard. It indicates that to improve and develop the market in the interests of achieving greater efficiency is to foster a more open and competitive market. The arguments in the Report also imply that measures being instituted in the VET system should be assessed against this criteria. (These matters will be discussed in more detail in the next section.)

Of course, Hilmer does remind us that open and competitive processes are not always consistent with the 'public interest' objective. The complexity of demands placed on the publicly funded vocational education and training through TAFE institutions in particular, raises the question as to what extent moves to a more open and competitive market will coincide with this overall objective. To date, TAFE has been not only a funder and provider of work force training services; it has played an important role in the delivery of training and related services to assist disadvantaged groups to participate in the labour market and in society as more active citizens. TAFE institutions have also provided adult and community education services which are important in certain geographical areas. There are equity and social justice issues bound up in the provision of these services. It is not surprising therefore that some commentators have expressed concerns that the ability of TAFE institutions to provide these services might be eroded in a more competitive and open market.

These concerns are legitimate; however, such a move to a more competitive and open market does not in itself imply that governments need give lower priority to equity and social justice concerns in respect of access to vocational education and training. The issue then is whether, and to what extent, governments will fund activities relating to the needs of special groups. One option for distributing these funds is to make special funding provisions in TAFE institutions' allocations. For example, the Victorian college funding model provides for separate costings for courses meeting the specific needs of Koories, offenders in correction settings, people with a disability and off campus students when negotiating its agreed profile allocation with each college. It is observed a more open market approach would suggest that funds set aside for special purposes be allocated by tender so that all providers, both public and private, were able

to compete; even more, that the recipients themselves be able to indicate their preferences with the institution of choice billing the funding agency.

2.4 Is the Training Market a National Market?

To what extent is the training market a national market? Is there really 'closer competition or rivalry in which one product or source of supply can be substituted for another' between say, VET providers in Cairns and Warrnambool? The evidence suggests that the trend is in the direction of a widening of markets and that they are becoming more national in scope. New approaches leading to the industrialisation of the production of education and training services and as such, moves away from the traditional craft ('chalk and talk') approaches e.g. distance education modes of delivery; the development of curricula materials which are not location specific; and easier transport arrangements and attitudes to travel allowing personnel having specialist skills to move among locations: all support the development of the training market on a national scale. Further, in the fee-for-service sector of the training market there are a number of cases where TAFE institutions operating out of one state are delivering services in another, reflecting both the increased willingness and ability of enterprises and individuals to source their training needs on a national basis and of (some) TAFE institutions to operate at this level.¹⁰

A greater challenge is for governments as funders to operate nationally rather than on a state basis. This situation is unlikely to develop in the near term to the extent that governments fund only own-state institutions. However, it is not impossible that a state training agency might find it more efficient to purchase specialist courses and associated products and services from interstate, on a competitive basis, in particular circumstances. Hilmer has noted that 'there is increasingly acknowledgment of the reality that Australia is for most significant purposes a single market' (p.14). Perhaps, the standard might be that local and regional initiatives should be supported to the

¹⁰ For example, the Box Hill College of TAFE in Victoria earns \$18 million from business, commercial and entrepreneurial activities out of a total income of about \$50 million. Part of this income is from out of state activities. (See Andrew Jackson, *Open Market Competition and the Implications for TAFE in Victoria*, paper presented to IIR Conference 'TAFE in the Commercial Market', Sydney, June 1994.) Over the national system as a whole, fee for service income is unlikely to be much more than 5% of income from all sources in 1995. The Deveson Report proposed that the proportion of TAFE total recurrent funding from entrepreneurial activities should be between 15% and 20% in the larger states.

extent that they are consistent with the development of an open and competitive national market and do not constitute new forms of restriction to competition on a national basis.

2.5 How is the Training Market Structured?

The analysis incorporated in Hilmer implies that there is a need to understand how training markets in Australia are structured; for example, the nature of the products being exchanged; the pattern of provision; and the type and extent of barriers to entry and exit. There are a number of issues here.

First, there is a need to understand what products are being exchanged in training markets.¹¹ Training is about skills formation: 'skills are the fundamental property possessed by workers',¹² and it is skills expressed as specific jobs which employers demand. However, the skills formation process is complex and structured education and training arrangements are but one means of acquiring them. Skills may also be acquired through learning-by-doing, by using and by interacting in the course of normal production and marketing activities.¹³ The OECD also draws attention to self directed learning and cites a US study which documents 'the extraordinarily high average level of investment of time, effort and money by individuals in private learning projects'.¹⁴ Thus, structured training for skills development has a number of close substitutes. In a system which seeks to become more demand driven and more 'client focused', the issue is the need for regulators to understand these linkages and to scrutinise new regulations for possible limitations to consumers' choice over the wider range of options.

Another structural feature of training markets is the pattern of provision as between different sectors of the market. Recently, particular attention has been paid to the role of private providers which include enterprises; industry based and commercial

¹¹ Some commentators argue that Australia is developing funding markets (where public and private providers compete for public training funds) rather than training markets (where purchasing power is in the hands of final users) see Robin Shreeve, *How can TAFE survive in a competitive training market*, paper presented to IIR Conference 'TAFE in the Commercial Market', Sydney, June 1994.

¹² J. Mathews, *Tools of Change*, Pluto Press, Sydney, 1989.

¹³ G. Burke et al, *The Economics of Vocational Education and Training in Australia: A Review of Recent Literature*, Australian National Training Authority, Occasional Paper 94/2.

¹⁴ OECD, *Industry Training in Australia, Sweden and the United States*, Paris, 1993.

providers; community providers and secondary schools. Estimates are that there are over 1,000 registered private providers in Australia including more than 300 each in Queensland and in Victoria. Measures to enable private providers to compete in training markets on more 'equal' terms are considered in the next section. However, beyond these considerations the question arises as to the extent to which policy makers might be concerned with their activities. Registration to ensure quality in relation to course content, staffing and facilities to provide some degree of consumer protection generally is regarded as appropriate. However, moving towards a more open and competitive training market implies allowing 'the market' to sort out the players. The issue then is the extent to which, and how, competition in training markets should be 'managed' in the public interest. At another level, there is also the issue as to what structures and incentives need to be put into place to allow and encourage *public* providers (TAFE institutions) to compete actively in open and competitive training markets for skills development.¹⁵

Legal and arbitrary barriers which operate to limit the entry and exit of providers to markets are a third structural feature. These matters are central to competition policy and will be considered in the next section. However, we may ask: to what extent does custom and practice rather than 'regulation' limit competition. It is observed that such behaviour generally leads purchasers to look 'closer to home' for their training needs. This may be an appropriate response when opportunities for substitutability over a wider area are constrained by poor information (since information is costly). The more efficient provision of information is a necessary element in the achievement of a more open and competitive national training market.

¹⁵ An analysis of the results of an open (to both public and private providers) tendering process in Queensland, where TAFE generally was outcompeted indicated that TAFE personnel were 'inexperienced' in preparing documentation in response to specifications. The upskilling of relevant personnel in this activity would appear to be a part of the process of enabling public providers to compete and succeed. See Charles Henderson, *Competitive Tendering and Your Market Advantage*, paper prepared for the First Australian TAFE Marketing Forum, Adelaide, September 1994, Vocational Education, Training and Employment Commission, Brisbane.

3. THE RELEVANCE OF THE HILMER PROPOSALS FOR A NATIONAL COMPETITION POLICY TO THE FURTHER DEVELOPMENT OF THE TRAINING MARKET WITHIN IT

It should be recognised that, as in some other areas of government, policy makers were addressing already the reform of the vocational education and training system through competitive processes prior to the establishment of the Hilmer Review. Major impetus for reform came from the 1990 Deveson Report. The *Training Costs of Award Restructuring Report*¹⁶ was a landmark for the vocational education and training system.

It brought to policy makers' attention the anticipated expansion in demand for training which would flow from the effects of the 1988 National Wage Case and a tripartite commitment to award restructuring, **linked** with the view that there was no reason why the public sector alone should be expected, or ought, to provide this expansion. The Deveson Committee estimated that one-half of all the resources devoted to training in Australia at the time were from outside the public sector; that is, there was in existence already a large training market beyond the bounds of TAFE. The challenge therefore, was to ensure that this market (including TAFE) operated efficiently and was 'demand driven'.

The broad thrust of the Deveson Report was endorsed at a Special Ministerial Conference on Training in 1990. Subsequently, Ministers of Vocational Education, Employment and Training (MOVEET) incorporated in the 1992 statement of *Common and Agreed National Goals for Vocational Education and Training* the commitments 'to develop an efficient, effective, responsive and integrated training market'.¹⁷ More recently, the Australian National Training Authority (ANTA) has addressed training market issues in the context of its National Strategy for Vocational Education and Training.

The Hilmer Committee acknowledged that reforms were taking place in a number of areas of government but expressed the view that 'a national competition policy presents

¹⁶ *Training Costs of Aware Restructuring*, report of the Training Costs Review Committee (I. Deveson, Chair), Australian Government Publishing Service, Canberra, 1990.

¹⁷ *Common and Agreed National Goals for Vocational Education and Training*, Ministers of Vocational Education, Employment and Training (MOVEET), Department of Employment, Education and Training, Canberra, 1992.

opportunities to progress reform more broadly to promote nationally consistent approaches and to avoid the costs of establishing diverse industry-specific and sub-national regulatory arrangements' (p.xviii). It was considered necessary also to take a 'bolder stance' than implied in the various co-operative reform processes already underway, because of the 'urgency' of the reform task and the need to establish a *national* reform process. However, the focus of the Hilmer review and its recommendations in relation to government regulation and government ownership in particular, were directed largely at public utilities. In comparison with public utilities VET was viewed as less important and was not considered by the Committee.

As noted in Part 1, Hilmer identified 'themes and issues' rather than developed 'detailed prescriptions' for individual sectors. Extending the Hilmer proposals to the vocational education and training sector therefore, may be a matter of interpretation, even when the final negotiations on a national competition policy, reflected in legislation and agreements, have been concluded through COAG. The challenge therefore will be to match the key propositions arising from the expected decisions to the particular circumstances of the vocational education and training sector.

The proposed national competition policy is now being presented for public scrutiny in the form of draft legislation (the Competition Policy Reform Bill) and draft Intergovernmental agreements. VET policy makers are likely to want to know:

- to what extent might decisions taken in relation to national competition policy through COAG processes impact directly on the VET system;
- if VET is exempted nevertheless, might not the decisions by governments to endorse a national competition policy set a standard for reform in other areas of government which could include VET; and
- might the framework presented in the Hilmer Report indicate points of strategic intervention, integral to the overall goal of more open and competitive training markets, already endorsed by Ministers.

The relevance of the Hilmer Committee's recommendations and the subsequent proposals for a national competition policy to VET logically might be considered in two parts: those which relate to part IV of the *Trade Practices Act* which spell out the

competitive conduct rules; and those which relate to the additional policy elements outlined in Part 1 above.

3.1 The *Trade Practices Act* (1974) Part IV

As noted in Part 1, the main recommendation in relation to the *Act* was that the competitive conduct rules (slightly amended) should be extended to include all businesses. COAG agreed subsequently that 'any recommendation or legislation arising from the Hilmer Report being applicable to all bodies, including Commonwealth and State government agencies and authorities'.¹⁸ The draft Competition Policy Reform Bill¹⁹ provides the means for amending Part IV of the *Act* and for applying it to 'all persons within State jurisdictions'. The draft amendments include removal of the shield of Crown immunity for the States and Territories when carrying on a business. The Bill allows for any State to exempt an area of State Government activity but it must be by an Act of Parliament (or amendment to an *Act*). Transitional arrangements are provided for those cases where conduct was previously outside the scope of the *Act*: generally, State and Territory application laws will come into effect 12 months after the Commonwealth Bill is given Royal Assent.

Opinions have been expressed among those examining the proposed legislation that the *Act* would apply to the conduct of business activities by TAFE institutions. Unless TAFE is expressly exempt therefore, the proposed national competition policy will impact directly on the VET system.

3.2 Additional Policy Elements

The Hilmer Report saw the additional policy elements in relation to the impediments to building a more competitive economy that might arise through government regulation or government ownership. It is proposed that these elements be given effect through the procedures and principles included in the Intergovernmental Competition Principles Agreement. *A priori*, these additional policy elements are likely to have particular

¹⁸ *Communique*, Council of Australian Governments, Hobart, 25 February 1994.

¹⁹ The draft Competition Policy Reform Bill, the draft Intergovernmental Conduct Code Agreement and the draft Intergovernmental Competition Principles Agreement has been released as a Draft Legislative Package by the Commonwealth Treasury.

relevance to the VET system, since markets for vocational education and training have been dominated by public providers and have strong regulatory and monopoly characteristics. Each of these elements will now be considered in turn.

Structural Reform of Public Monopolies

A more open and competitive market may be achieved in some sectors if the 'excessive' market power of the incumbent public monopoly is undermined. The Hilmer Report argued that this outcome might be achieved in some circumstances only if the public monopoly is restructured: achieved through the separation of regulatory from commercial functions; natural monopoly functions from potentially competitive activities; and potentially competitive activities into a number of smaller, independent business units. The draft Competition Principles Agreement gives effects to these proposals and indicates review processes which a State or Territory should undertake before it introduces competition to a market traditionally supplied by a public monopoly. These reviews would include: to address all three aspects of structural separation identified by Hilmer; appropriate financial relationships between the owner of the public monopoly and the public monopoly; and the most effective means of addressing competitive neutrality and community service obligations (funding and delivery).

The dominance of the publicly funded, and hitherto vertically integrated TAFE system in the VET market indicates that structural reform has particular relevance in moves to make the training market more efficient. The proposals provide a check list against which initiatives already underway to open up the training market might be assessed (what has been done: where to next). They imply:

- the need for greater separation of regulatory functions from those concerned with the operation of TAFE institutions; and for regulatory agencies to consider the needs of the VET sector as a whole and not primarily those of the publicly funded providers. In this regard, the separation of state training agencies which have responsibility for the regulatory framework for vocational education and training, from those bodies which manage the public providers has now largely been achieved (*de jure*). However, the extent to which service provision has been devolved further to individual TAFE institutions, to manage their resources and

determine levels of commercial activity, varies significantly between States and Territories. Perceptions by central agencies of themselves as purchasers of training places rather than funders chiefly of public providers is part of this reform process;

- in respect of individual TAFE institutions, the need to separate the 'commercial' i.e. tradeable and business aspects of their operations from those activities associated with community service obligations. As mentioned earlier, this issue causes concern among some of those directly involved. Advice of how this issue might be addressed would be helpful;
- the need for detailed cost studies to establish the full economic (resource) cost of TAFE institutions and individual tradeable TAFE courses and related services. An understanding of costs is a necessary pre-requisite if institutions are to engage in economically profitable commercial ventures; and for the purposes of achieving competitive neutrality. Cost studies also are an input into any assessment of the costs and benefits of separating potentially competitive activities into smaller units; and for establishing appropriate financial relationships with their owners, governments; and
- the need to identify natural monopoly elements or at least, the scope for economies-of-very-large-scale in the provision of certain VET services. For example, in relation to curricula, the question arises as to whether these opportunities have been fully exploited, given that most courses are offered on a State by State basis.

Regulatory Restrictions on Competition

In this content, regulatory restrictions are restrictions contained in legislation²⁰; in particular, those that create barriers to market entry, and limit competitive conduct. Barriers to market entry can include those regulations which create a monopoly; and those which serve to limit the number of providers and the volume of output. The draft Principles Agreement proposes that legislation should not restrict competition unless it

²⁰

The Draft Legislative Package (p.4.7) defines legislation as including Acts, enactments, Ordinances or regulations.

is shown that 'the benefits of the restriction to the community as a whole outweighs the costs; and the objectives of the legislation require that competition be restricted'.²¹

While each State and Territory is free to decide its own agenda for the review of regulations it is proposed in the Draft Legislative Package that each will develop a timetable for that review, and achieve regulatory reform by the year 2000. Processes are also outlined for those cases where an individual State believes the matter has a national dimension.

The application of the Hilmer approaches and principles imply:

- the need for state training agencies to review the full list of regulations limiting competition in the VET system, following the proposed principles;
- the need for an independent body or national group to identify regulations which might limit the ability of public and private providers operating nationally and to assess the reality of achieving deregulation in this area; and
- the need for these studies to include entrenched practices and behaviours which also restrict competition and to consider the pattern of incentives and disincentives which might be put in place to overcome them.

Whether or not the vocational education and training system will come within the scope of the national competition policy, the adoption of an appropriately structured regulatory framework is necessary to the achievement of more open and competitive training markets. Progress already has been made in allowing the registration of private providers of VET services. Registration and accreditation are means of assuring quality and providing consumer protection. However, they can also serve to limit competition if additional constraints are imposed. For example, previously in Victoria, registration provisions required that regard be given to existing capacity. These provisions have now been deleted. In an open and competitive market generally it is considered appropriate for supply adjustments to be left more to the market. Further, attention should also be directed at establishing whether there are restrictions which might serve to limit the ability of *public* providers to compete on equal terms.

²¹ Draft Legislative Package, p.4.7.

Access to 'Essential' Facilities

'Essential' facilities are those facilities which exhibit natural monopoly characteristics and occupy a strategic position in an industry such that access to them is necessary if a business is to compete in that industry. The Hilmer Report proposed a new legal regime, to apply only to a limited number of facilities, essential to permit competition in a 'significant' industry having impact on national competitiveness.

The national competition policy draft documents provide for the declaration of certain **services** provided by facilities which are of national significance, and the means by which persons may seek access to them ('access regime'). It is suggested in those documents that examples of such facilities are electricity transmission lines, gas pipelines, water pipelines, railways, airports, telecommunication channels and seaports.

In this context it would appear most unlikely that particular services provided by individual TAFE and private sector training facilities would be among those being targeted.

However, the Hilmer Report's arguments lead to the consideration that:

- there may be expensive or specialised training facilities where assured competitor access could be appropriate in certain areas; these facilities could be in the public sector and in certain industry settings and may include expensive equipment;
- there may be access problems in some geographical areas where the small scale of operations overall makes duplication of facilities even where those facilities might not otherwise be considered generally as expensive or specialised, e.g. library facilities uneconomical;
- access price will be an issue in these cases; attention will need to be given to how these prices might be determined and other terms and conditions. There is no general agreement as to how access prices might be calculated having regard for their efficiency implications; other than they should be in the range of no less than marginal cost and no greater than average cost; and
- the approaches proposed in the draft documents in relation to services provided by such facilities, could provide guidance in this wider context.

Monopoly Pricing

It is a factual matter as to whether public providers of VET products and services charge and maintain prices above average costs in the long run; that is, whether the prices charged are 'too high'. However, it is unlikely that this is the case. The view is widespread that individual TAFE institutions probably undercharge, at rates below the full resource costs incurred in bringing a particular service to the market. For example, they may be undercharging because they have yet to take actions to offset the special cost advantages which public providers enjoy as a result of their public ownership (see also *Competitive Neutrality*) and the issue of how capital charges might be incorporated is yet to be resolved.

It is unlikely that monopoly pricing *per se* is a major issue at this time.

Competitive Neutrality

Competitive neutrality relates to concerns about special advantages that government business enterprises might enjoy because of their ownership; for example, advantages arising from immunity from certain taxes and government charges, guarantee on debts, and concessional interest rates. The Hilmer Report argued that these advantages should be removed: public and private providers should be put on an equivalent basis so that competition can occur between them on equal terms.

The Hilmer Report therefore, was laying down the basic ground rules on which public providers should compete in national markets. Competition should be on the basis of comparative efficiency and ability to meet customer needs, not on the basis of privileged access to resources and differential elements of the cost structure. The Report argued that the approaches which in general were most likely to be effective are privatisation and corporatisation. Pricing directives, that is measures aimed at ensuring the full economic costs of the provision of services are reflected in prices, are another option.

The draft Competition Principles Agreement proposes that where practical governments adopt a corporatisation model for public trading enterprises and public financial enterprises, ensuring that full tax and debt guarantee fees are imposed on these bodies and that they are subject to the same regulations as their private sector counterparts. In

other cases, where governments are carrying out 'significant business activities' and the same principles are not easily applied, then general pricing principles, to put government businesses on an equal footing with private providers, should be adopted.

One may anticipate considerable resistance across a broad front to any moves to privatise or corporatise the nation's TAFE institutions, let alone the VET component of schools, even if the more commercial (tradeable) activities were separated from other activities. If pricing directives of the Hilmer type were to apply, TAFE institutions (the basic competitive unit) would be faced with a large task in undertaking the costing of those services and products to be traded in training markets; and they may lack the necessary expertise. Officials have conceded that it is proving difficult to calculate the full resource costs, particularly the costs of capital including buildings and equipment. The decision by some governments to move to an accrual accounting basis should assist the public VET sector to address these matters.

Concerns have already been expressed about what essentially are competitive neutrality issues as they affect competition between public and private providers of VET. Private providers point to the advantages, similar to those identified by Hilmer, enjoyed by public providers. On the other hand, public providers argue they are at a competitive disadvantage because of comparatively high wage costs, fewer class contact hours per staff member, leave provisions and other employment conditions; and the need to provide expensive infrastructure. Whether or not the proposed national competition policy applies to VET, competitive neutrality is one issue that VET policy makers will need to address.

4. OPPORTUNITIES FOR STRATEGIC INTERVENTION

The Hilmer proposals provide a comprehensive framework by which policymakers might achieve the development of an 'efficient, effective, responsive and integrated training market', through the pursuit of more open and competitive processes. The Hilmer Report identified the main constraints to the attainment of a more open and competitive market and provided a set of principles to assist governments to overcome these constraints. The manner in which these principles might be implemented best are now open to public comment.

The foregoing discussion suggests there are two areas in particular to which authorities might give priority in intervening to promote the development of training markets, consistent with the objectives of the proposed national competition policy endorsed in principle by governments. These relate to structural and regulatory reform. Reform of the funding arrangements is part of these processes. There has been some progress on both these fronts in the vocational education and training sector but the extent varies between States and Territories. Without further progress on these matters moves to open up training markets to make them more competitive and efficient will not be highly successful. Issues relating to competitive neutrality also require attention.

Moves in the direction of achieving structural reform and competitive neutrality are dependent on a sound knowledge of the cost structure of TAFE at the business unit level; the full economic resource costs of providing all TAFE services and products need to be known. It is understood that currently there is no comprehensive study of the costs of TAFE, although Victoria and Queensland have made significant progress on this matter. The valuation of capital poses a particular difficulty. The task will place a significant burden on individual 'business units'. ANTA might assist by developing a framework for assessing costs which could be distributed nationally.

The role that ANTA is playing already in promoting the training market concept in the context of larger developments in relation to a national competition policy is critical to achieving efficiency in the operations of that market in the longer term. There is a need to recognise that the TAFE sector in particular must embrace significant changes in attitudes, approaches and the way it goes about its work. Cultural change is required at all levels. Specifically, if individual institutions and the people who work within them

are to operate effectively in the training market they will need to regard themselves as being in business, and develop the appropriate skills so they might participate successfully. Furthermore, these achievers will need to be recognised.

Of course, there are some who have already embraced this new approach: they are the true entrepreneurs; those who see opportunity in change and benefit by it. However, there will also be those who have an interest in maintaining the *status quo* and will oppose change. There will be those who have given lengthy service and a high level of commitment to the old system who will feel that to 'commercialise' many of TAFE's operations is to go against the 'higher' purposes of TAFE as they see them. There will be others who will fear the change and will be unable to cope with it. More importantly, it is necessary to appreciate the fundamental change occurring in the nature of what managers at a State and Federal level are doing: that is, managing the processes of moving towards a more open and competitive regime which implies much less detailed regulation and control.

SUMMARY - MAIN FINDINGS AND RECOMMENDATIONS RELATING TO THE HILMER REPORT'S ADDITIONAL POLICY ELEMENTS

	Regulatory Restrictions	Structural Reform of Public Monopolies	Access to "Essential" Facilities	Monopoly Pricing	Competitive Neutrality
POLICY ISSUE	the identification of regulatory restrictions in statutes or subordinate legislation	the need to restructure public monopolies having "excessive market power"	assuring competitor access to "essential facilities" (which cannot be duplicated economically) on fair and reasonable terms	identify reasons for prices being maintained above long run average costs and if possible, remove them	the need to identify special competitive advantages that government businesses enjoy because of their ownership
SCOPE	<p>two forms impact on competition most directly:</p> <ul style="list-style-type: none"> regulatory barriers to market entry barriers creating a monopoly: public utilities; provision of budget funded services; rural marketing; other government sanctioned monopoly (e.g. intellectual property; transport of certain commodities) restrictions controlling structure of industry (e.g. no. of producers; volume of production) provider standards and qualifications more restrictive than necessary to protect public interest restrictions on competitive conduct, from price controls to need to comply with ethical standards 	<p>structural separation in three possible areas. The separation of:</p> <ul style="list-style-type: none"> regulatory from commercial functions; natural monopoly from potentially competitive activities potentially competitive activities into a number of smaller business units 	<ul style="list-style-type: none"> may apply to both public and private sectors concerns may arise in relation to impact on revenue, community services obligations (cross subsidisation) and sovereignty 	<p>proposals to enhance competition put forward earlier should increase competitive pressure and limit the ability to sustain "higher" prices</p>	<ul style="list-style-type: none"> advantages may include: immunity from taxes and charges and certain regulations; guarantee on debts; concessional interest rates; no requirement to account for depreciation; no requirement to achieve commercial rates of return on assets; immunity from bankruptcy and opportunities for cross subsidisation remedies include: privatisation and corporatisation, most effectively; reform of particular sources of advantage; in some cases pricing directions
PROPOSED PRINCIPLES	<p>As they affect competition:</p> <ul style="list-style-type: none"> no regulation unless in public interest new regulations: demonstrate benefits exceed likely costs and then sufficient only to protect public interest existing regulations: regularly reviewed by an independent body 	<p>Before competition is introduced into a market traditionally supplied by public monopoly:</p> <ul style="list-style-type: none"> responsibility for industry regulation should be removed from incumbent; an independent study should evaluate costs and benefits of removing natural monopoly from elements competitive activities an independent study should evaluate uses and benefits of separating competitive activities an independent study should evaluate all related structural issues 	<ul style="list-style-type: none"> a new legal regime is proposed: to operate by specific declaration of Minister; to apply to a limited number of cases (essential to permit competitors, in a "significant" industry, having impact on national competitiveness) declaration to specify pricing principles and other terms and conditions could not be created without recommendation of National Competition Council cooperation to be sought from governments but unilateral action might be justified in some cases if cooperation not forthcoming 	<ul style="list-style-type: none"> where workable competition cannot be achieved apply a prices monitoring and surveillance process State and Territory Governments should: deal with pricing issues affecting government business through cooperative, consistent and transparent processes consider establishing state pricing oversight mechanisms consent to subject key businesses to the national mechanism (consent to be waived if no progress in cases where reform would have a significant impact) 	<ul style="list-style-type: none"> government businesses should not enjoy competitive advantages by reason of ownership when competing with other businesses measures which favour government businesses when competing in their traditional market to be neutralised within one year of the introduction of competition (corporatisation is presumed appropriate where services are provided directly to the public; where provided to other government entities either through corporatisation or pricing directions) government businesses should not compete in new markets without being subject to measures to neutralise net advantages



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